

REEVES MEMORIAL MEDICAL CENTER

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012, AND 2011

Reeves Memorial Medical Center  
Financial Statements  
and  
Independent Auditors' Report  
Years Ended December 31, 2013, 2012, and 2011

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Ward 3, 4 and 10 Hospital Service District  
of the Parish of Union, State of Louisiana  
Management's Discussion and Analysis

This section of the Hospital Service District's (the "District") annual financial report presents background information and management's analysis of the District's financial performance during the fiscal year that ended on December 31, 2013. Please read it in conjunction with the financial statements in this report.

### Financial Highlights

- The District's total assets increased in 2013 by \$579,907 compared to increases of \$770,764 and \$716,579 in fiscal years 2012 and 2011, respectively. Limited use assets increased due to borrowing \$2,000,000 through two bond issuances, R-1 and R-2. The R-2 bond of \$450,000 was used to pay off the 2002 USDA bond balance. The R-1 bond of \$1,550,000 will be used to renovate portions of the hospital. A portion of the increases are due to grants received for meeting meaningful use standards and to provide care for indigent/low income patients. Gross Accounts Receivable decreased by \$236,240 in FY 2013 partially due to better collection using an outside billing company who replaced lost staff in the business office. Fiscal year 2012 net Accounts Receivable balance increased by \$609,753 primarily due to loss of business office personnel and nonpayment of Bayou Health claims until after year end.
- A loss in operating income of \$1,151,372 occurred in FY 2013 due primarily to a decrease in net patient revenue of \$422,196 and a decrease in grant income of \$1,233,203 from 2012 grants of \$1,669,086 to \$435,883. In FY 2012, the \$849,188 operating income was due to receipt of grant money for meeting meaningful use standards and to use in providing healthcare to indigent and/or low income patients. Without the \$1,669,086 received in operating grants the District would have had an operating loss of \$819,898. In 2011, the receipt of operating grant income of \$983,339 was the reason the District had an operating income of \$443,054. An operating loss of \$658,557 occurred in 2010. This decrease is mainly attributable to a decrease in net patient service revenue of \$444,133. Net patient service revenue changed little from 2011 to 2012. Inpatient volume increased by 68 days in FY 2013 compared to prior year losses of inpatient volume. Operating expenses continued an upward trend by increasing \$363,262, compared to \$269,824 and \$384,955 in 2012 and 2011, respectively (mainly because of increases in salaries).
- The District received revenues for Uncompensated Cost Reimbursement (UCC) in the amount of \$-0-, \$300,016, \$300,016, and \$404,924, for fiscal years 2013, 2012, 2011, and 2010, respectively. The 2012 payment was a "backfill" from the prior year. This income is dependent on how the State of Louisiana and the federal government's regulations change. Additional monies were paid as grant income to be used for providing healthcare to indigent and/or low income patients. UCC was replaced with grant money disbursed through large hospitals.
- The District received property tax revenues of approximately \$274,517, \$255,190, \$259,509, and \$269,627, for fiscal years 2013, 2012, 2011, and 2010, respectively. The 5.34 mills ad valorem tax expired in fiscal year 2011 and was renewed for 2012 through 2021.
- An HVAC project and various equipment purchases of approximately \$290,000 was the reason for the increase in capital assets in FY 2013. Fiscal year 2012 capital assets increased approximately \$316,000 due to a new conference building, completion of renovations to the rural health clinic and needed equipment purchases. Purchases of capital assets in fiscal year 2011 were approximately \$239,231 compared to purchases in 2010 which totaled \$234,957.

Ward 3, 4 and 10 Hospital Service District  
of the Parish of Union, State of Louisiana  
Management's Discussion and Analysis (Continued)

**Required Financial Statements**

The Financial Statements of the District report information about the District using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term financial information about its activities. The Statements of Net Position include all of the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses, and Changes in Net Position. This statement measures improvements in the District's operations over the past three years and can be used to determine whether the District has been able to recover all of its costs through its patient service revenue and other revenue sources. The final required financial statement is the Statements of Cash Flows. The primary purpose of this statement is to provide information about the District's cash from operations, investing and financing activities, and to provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

**Financial Analysis of the Hospital Service District**

The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position report information about the Hospital Service District's activities. These two statements report the net position of the District and changes in them. Increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in the health care industry, changes in Medicare and Medicaid regulations, and changes in managed care contracting should also be considered.

Ward 3, 4 and 10 Hospital Service District  
of the Parish of Union, State of Louisiana  
Management's Discussion and Analysis (Continued)

**Net Position**

A summary of the District's Statements of Net Position are presented in Table 1 below:

**TABLE 1**  
**Condensed Statements of Net Position**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Total current assets	\$ 2,256,758	\$ 3,141,920	\$ 2,809,791	\$ 1,999,866
Capital assets - net	1,429,190	1,347,808	1,227,548	1,347,906
Other assets	<u>2,097,072</u>	<u>713,385</u>	<u>395,010</u>	<u>367,998</u>
 Total assets	 \$ <u>5,783,020</u>	 \$ <u>5,203,113</u>	 \$ <u>4,432,349</u>	 \$ <u>3,715,770</u>
 Current liabilities	 \$ 785,718	 \$ 591,140	 \$ 755,989	 \$ 539,434
Long-term liabilities	1,921,089	475,475	468,946	490,733
Invested in capital assets, net of related debt	953,981	878,865	735,881	834,515
Restricted: Bond reserve fund	1,560,412	50,442	45,060	40,604
Unrestricted	<u>561,820</u>	<u>3,207,191</u>	<u>2,426,473</u>	<u>1,810,484</u>
 Total liabilities and net position	 \$ <u>5,783,020</u>	 \$ <u>5,203,113</u>	 \$ <u>4,432,349</u>	 \$ <u>3,715,770</u>

As can be seen in Table 1, total assets increased by \$579,907, \$770,764, and \$716,579 in 2013, 2012, and 2011. The 2013 increase was due to borrowing bonds and placing them in limited use assets consisting of bond construction checking account of \$1,467,340 and paying agent account of \$60,072, restricted to construction project with equipment and fixtures/furniture for the project and paying principal and interest. Net capital assets increased by \$120,260 in 2012, decreased in 2011 and 2010 by \$120,358 and \$135,861, respectively. An increase in Accounts Receivable in fiscal year 2012 of \$609,753 was the primary reason total assets increased. The receipt of grants in 2011 with the resulting increase in cash was the primary reason for the increase in total assets in 2011. The large write off of prior years' accounts receivable balances is the main reason total assets decreased in fiscal year 2010.

Ward 3, 4 and 10 Hospital Service District  
of the Parish of Union, State of Louisiana  
Management's Discussion and Analysis (Continued)

**Summary of Changes in Net Position**

The following table presents a summary of the District's historical revenues and expenses for each of the fiscal years ended December 31, 2013, 2012, 2011, and 2010.

**TABLE 2**  
**Condensed Statements of Revenues, Expenses, and Changes in Net Position**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Revenues:				
Net patient service revenue	\$ 4,955,559	\$ 5,377,755	\$ 5,367,561	\$ 4,790,616
Property tax revenue	274,517	255,190	259,509	269,627
Other revenue	<u>506,059</u>	<u>1,740,488</u>	<u>1,070,405</u>	<u>150,666</u>
Total revenues	<u>5,736,135</u>	<u>7,373,433</u>	<u>6,697,475</u>	<u>5,210,909</u>
Expenses:				
Salaries and benefits	3,353,605	3,216,200	3,010,744	2,679,259
Medical supplies and drugs	334,158	356,892	331,326	353,979
Professional fees	1,261,476	1,274,152	1,162,079	1,288,387
Other expenses	<u>1,938,268</u>	<u>1,677,001</u>	<u>1,750,273</u>	<u>1,547,841</u>
Total expenses	<u>6,887,507</u>	<u>6,524,245</u>	<u>6,254,422</u>	<u>5,869,466</u>
Operating income (loss)	(1,151,372)	849,188	443,053	(658,557)
Nonoperating revenues (expenses)				
Interest income	21,272	24,304	19,741	10,338
Interest expense	(29,093)	(22,759)	(22,658)	(23,200)
Gain (loss) on disposal of asset	<u>-0-</u>	<u>-0-</u>	<u>(240)</u>	<u>2,500</u>
Nonoperating income (loss), net	(7,821)	1,545	(3,157)	(10,362)
Changes in net position before capital grants	(1,159,193)	850,733	439,896	(668,919)
Capital grants	<u>68,873</u>	<u>65,567</u>	<u>58,973</u>	<u>79,015</u>
Changes in net position before other comprehensive income	(1,090,320)	916,300	498,869	(589,904)
Other comprehensive income				
Change in unrealized gain (loss) on securities	<u>30,035</u>	<u>12,784</u>	<u>22,941</u>	<u>1,700</u>
Changes in net position	\$ <u>(1,060,285)</u>	\$ <u>929,084</u>	\$ <u>521,810</u>	\$ <u>(588,204)</u>

Ward 3, 4 and 10 Hospital Service District  
of the Parish of Union, State of Louisiana  
Management's Discussion and Analysis (Continued)

## Sources of Revenue

### Operating Revenue

During fiscal year 2012, the District derived the majority of its total revenue from patient service revenue. Patient service revenue includes revenue from the Medicare and Medicaid programs and patients, or their third-party payers, who receive care in the District's facilities. On December 30, 2005, the District changed its status for Medicare reimbursement purposes from a prospectively paid (PPS) hospital to a cost based reimbursement or critical access hospital. This change resulted in more reimbursement from Medicare. Reimbursement for the Medicare and Medicaid programs and the third-party payers is based upon established contracts. The difference between the covered charges and the established contract is recognized as a contractual allowance. Other revenue includes grant revenue received for meeting meaningful use standards and to provide healthcare to indigent and/or low income patients. If the District continues to meet the criteria, grant money may be available for a short period of time. Other revenue also contains cafeteria sales, HPSA incentive income, and other miscellaneous services.

Table 3 presents the relative percentages of gross charges billed for patient services by payer for the fiscal years:

**TABLE 3**  
**Payer Mix by Percentage**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Medicare	44%	50%	49%	50%
Medicaid	13%	20%	22%	20%
Commercial and other third-party payers	31%	22%	20%	17%
Other	<u>12%</u>	<u>8%</u>	<u>9%</u>	<u>13%</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

### Non-operating Income

The District holds investments in its Statements of Net Position that are invested primarily in Certificates of Deposit. Total investments were \$534,846, \$654,811, \$342,027, and \$319,086, for 2013, 2012, 2011, and 2010, respectively. Certificates of deposits were used for operation in FY 2013 in the amount of \$150,000. Earned interest on investments was \$4,901, \$4,913, \$3,410, and \$5,477, for fiscal years 2013, 2012, 2011, and 2010, respectively. Capital grant income for fiscal years 2013, 2012, 2011, and 2010 was \$68,873, \$65,567, \$58,973, and \$79,015, respectively.

### Operating and Financial Performance

The following summarizes the District's Statements of Revenues, Expenses, and Changes in Net Position between 2013, 2012, 2011, and 2010:

In FY 2013 an increase of acute and swing patient days of 68 occurred in contrast to declines of 194, 266, and 728, in 2012, 2011, and 2010, respectively. Acute and swing patient admissions continued to decrease by the following: 7, 34, 80, and 146, in fiscal years 2013, 2012, 2011, and 2010, respectively.

Ward 3, 4 and 10 Hospital Service District  
of the Parish of Union, State of Louisiana  
Management's Discussion and Analysis (Continued)

**Operating and Financial Performance (Continued)**

This downward trend is responsible for the decreases in operating income that can be seen if the operating grant and tax receipts are removed from operating income. Decreases in volume led to decreases in patient revenue. The District increased patient charges for room and board in 2013 and by department in 2012 and 2009.

As a critical access hospital the average length of stay is required to be 3.96 days or less. The District had a downward trend in average length of stay for acute days in 2012 at 3.27 compared to 3.45 and 3.48, in 2011 and 2010, respectively. For 2013, the average length of stay increased to 4.39 but this includes Swing bed days.

A decrease of \$422,196 in net patient service revenue occurred in fiscal year 2013. In part due to increases in allowances for bad debt and administrative and other adjustment and in part due to \$160,000 less emergency room revenue. In fiscal year 2012, net patient revenue did not vary much from fiscal year 2011. It increased only \$10,194. Total net patient service revenue increased in 2011 by \$576,945 after two years of decreases in 2010 and 2009 of \$444,133 and \$95,666, respectively, which reflected the drop in inpatient volume. The gross patient service revenue is down, but so are the Medicare and Medicaid allowances. Changes in rates have contributed to the decrease in allowances in 2012 and better collection procedures in place in 2011 aided in lowering the allowances.

The gross accounts receivable balance decreased by \$236,240 in fiscal year 2013. Outsourcing the billing and collections due to loss of personnel last year and Bayou Health plans paying correctly both contributed to the decrease. The District's gross accounts receivable increased by \$842,728 in 2012 compared to a small increase of \$14,167 in 2011. Loss of business office personnel and changes in Medicaid plans with the new Bayou Health plans not being paid timely were primary causes of the large increase in 2012. The poor economic climate has contributed to difficulty in collecting monies owed to the District. The District is utilizing a collection agency to increase the collection percentage. Large write offs of prior year balances coupled with the drop in patient service revenue contributed to the large decrease in accounts receivable and the decrease in average days in net accounts receivable to 36 and 33 days in 2011 and 2010 compared to an increase to 77 and 62 days in fiscal year 2012 and 2013, respectively. The District continues to exert every effort to assist patients in finding funding sources for health care.

Salaries continued to grow in 2013 by \$88,916 compared to increases in 2012 and 2011 of \$197,567 and \$256,253, respectively. Benefits increased \$48,489, \$7,889, and \$75,232 for fiscal years 2013, 2012, and 2011. The District has to compete with other area hospitals for personnel.

Medical supplies cost decreased in fiscal year 2013 by \$22,734. The cost of medical supplies reversed a downward trend in 2012 with an increase of \$25,566 compared to decreases of \$22,653, and \$74,449 in 2011 and 2010, respectively.

Medical professional fees showed a slight decrease of \$12,676 in 2013. Medical professional fees also trended higher in 2012 by growing \$112,073 compared to the previous year's decreases of \$126,308 and \$272,329 in 2011 and 2010, respectively. More was paid for consultants and outsourcing the billing of claims due to an inability to attract personnel. The 2011 decrease was partially due to new contracts with various physicians for ER coverage and a change in the way rural health clinic visits are paid. Rural health clinic visits stayed relatively flat in 2013 with 9,284 compared to increases in 2012 to 9,477 through the use of a nurse practitioner. In 2011 visits declined by 2,622 to 8,400 visits following a decrease of 996 to 11,022 visits in 2010.



Ward 3, 4 and 10 Hospital Service District  
of the Parish of Union, State of Louisiana  
Management's Discussion and Analysis (Continued)

**Operating and Financial Performance (Continued)**

There was a slight increase of \$58,879 in Provision for Bad Debts in fiscal year 2013. In 2012 an increase in Provision for Bad Debts of \$100,575 reversed a decline of \$224,537 to \$663,720 in 2011. Lack of personnel and changes in personnel contributed to this increase. Increased collection efforts, use of a collection agency, and write offs of older accounts aided in decreases in 2011.

Other expenses, including insurance and depreciation, increased by 16% compared to a 2012 decrease of 4% and a 2011 increase of 13%. A portion of this increase is due to GASB 65 becoming effective for FY 2013. All bond issue costs in the current year of \$82,177 were required to be expensed instead of amortized due to this change in accounting principle. Bond issue costs of \$6,320 associated with the paid off bonds were also expensed.

**Capital Assets**

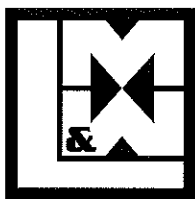
During fiscal year 2013, investment in capital assets was approximately \$290,000 consisting of equipment and HVAC project. All are included in Table 4 below.

**TABLE 4**  
**Capital Assets**

	December 31, <u>2013</u>	December 31, <u>2012</u>	December 31, <u>2011</u>	December 31, <u>2010</u>
Land	\$ 30,614	\$ 30,614	\$ 30,614	\$ 30,614
Land improvements	32,060	32,060	32,060	32,060
Leasehold improvements	8,060	8,060	8,060	8,060
Buildings	1,565,044	1,542,673	1,321,290	1,233,166
Fixed equipment	420,289	271,289	271,289	295,026
Major moveable equipment	2,429,880	2,324,965	2,203,104	2,147,677
Transportation equipment	58,201	45,205	45,205	45,205
Minor equipment	1,477	1,477	1,477	1,477
Construction in progress	<u>266</u>	<u>260</u>	<u>26,933</u>	<u>-0-</u>
Total	4,545,891	4,256,603	3,940,032	3,793,285
Accumulated depreciation	<u>3,116,701</u>	<u>2,908,795</u>	<u>2,712,484</u>	<u>2,445,379</u>
Net capital assets	\$ <u>1,429,190</u>	\$ <u>1,347,808</u>	\$ <u>1,227,548</u>	\$ <u>1,347,906</u>

**Contacting the Hospital Service District's Financial Manager**

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital Service District's finances and to demonstrate the accountability for the money it receives. If you have questions about this report or need additional financial information, contact Hospital Administration.



## **LESTER, MILLER & WELLS**

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### INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
Ward 3, 4 and 10 Hospital Service District  
Of the Parish of Union, State of Louisiana  
Reeves Memorial Medical Center  
Bernice, Louisiana

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of Ward 3, 4 and 10 Hospital Service District of the Parish of Union, State of Louisiana d/b/a Reeves Memorial Medical Center (the "District"), a component unit of the Union Parish Police Jury, Bernice, Louisiana, which comprise the statements of net position, as of and for the years ended December 31, 2013, 2012, and 2011, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used

and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Reeves Memorial Medical Center as of December 31, 2013, 2012, and 2011, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages "i" through "vii" be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Reeves Memorial Medical Center's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally



Board of Commissioners  
Ward 3, 4 and 10 Hospital Service District  
Of the Parish of Union, State of Louisiana  
Reeves Memorial Medical Center  
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accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated June 23, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

*Leota, Mulla & Wells*  
Certified Public Accountants  
Alexandria, Louisiana

June 23, 2014



Ward 3, 4 and 10 Hospital Service District  
Of the Parish of Union, State of Louisiana  
Reeves Memorial Medical Center  
Statements of Net Position  
December 31,

ASSETS	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current assets:			
Cash and cash equivalents (Notes 2 & 3)	\$ 326,752	\$ 994,920	\$ 1,275,469
Accounts receivable, net (Note 4)	843,970	1,133,826	524,073
Estimated third-party payor settlements	163,514	369,727	241,737
Other receivables	644,857	352,275	485,552
Inventory	181,837	181,780	199,589
Prepaid expenses	<u>95,828</u>	<u>109,392</u>	<u>83,371</u>
Total current assets	<u>2,256,758</u>	<u>3,141,920</u>	<u>2,809,791</u>
Assets limited as to use (Note 6)	1,560,412	50,442	45,060
Capital assets (Note 5)	1,429,190	1,347,808	1,227,548
Investments (Note 3)	534,846	654,811	342,027
Other assets (Note 7)	<u>1,814</u>	<u>8,132</u>	<u>7,923</u>
Total assets	\$ <u>5,783,020</u>	\$ <u>5,203,113</u>	\$ <u>4,432,349</u>
LIABILITIES AND NET POSITION			
Current liabilities:			
Accounts payable	\$ 204,422	\$ 269,224	\$ 183,714
Accrued expenses and withholdings payable (Note 9)	311,639	286,398	249,538
Estimated third-party payor settlements	170,312	-0-	-0-
Deferred revenue	-0-	-0-	300,016
Current portion of long-term debt (Note 8)	<u>99,345</u>	<u>35,518</u>	<u>22,721</u>
Total current liabilities	<u>785,718</u>	<u>591,140</u>	<u>755,989</u>
Long-term debt (Note 8)	<u>1,921,089</u>	<u>475,475</u>	<u>468,946</u>
Total liabilities	<u>2,706,807</u>	<u>1,066,615</u>	<u>1,224,935</u>
Net position:			
Invested in capital assets, net of related debt	953,981	878,865	735,881
Restricted: Bond reserve fund	1,560,412	50,442	45,060
Unrestricted	<u>561,820</u>	<u>3,207,191</u>	<u>2,426,473</u>
Total net position	<u>3,076,213</u>	<u>4,136,498</u>	<u>3,207,414</u>
Total liabilities and net position	\$ <u>5,783,020</u>	\$ <u>5,203,113</u>	\$ <u>4,432,349</u>

See accompanying notes to financial statements.

Ward 3, 4 and 10 Hospital Service District  
Of the Parish of Union, State of Louisiana  
Reeves Memorial Medical Center  
Statements of Revenues, Expenses, and Changes in Net Position  
Years Ended December 31,

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenues:			
Net patient service revenue (Note 12)	\$ 4,955,559	\$ 5,377,755	\$ 5,367,561
Property tax revenue (Note 15)	274,517	255,190	259,509
Grant income	435,883	1,669,086	983,339
Contributions	767	-0-	7
Other operating revenue	<u>69,409</u>	<u>71,402</u>	<u>87,059</u>
Total revenues	<u>5,736,135</u>	<u>7,373,433</u>	<u>6,697,475</u>
Expenses:			
Salaries and benefits	3,353,605	3,216,200	3,010,744
Medical supplies and drugs	334,158	356,892	331,326
Professional fees	1,261,476	1,274,152	1,162,079
Other expenses	1,597,053	1,327,381	1,281,577
Insurance	119,862	112,530	108,962
Depreciation and amortization	<u>221,353</u>	<u>237,090</u>	<u>359,733</u>
Total expenses	<u>6,887,507</u>	<u>6,524,245</u>	<u>6,254,421</u>
Operating income (loss)	(1,151,372)	849,188	443,054
Nonoperating revenues (expenses)			
Interest income	21,272	24,304	19,741
Interest expense	(29,093)	(22,759)	(22,658)
Gain (loss) on disposal of assets	<u>-0-</u>	<u>-0-</u>	<u>(240)</u>
Nonoperating income (loss), net	(7,821)	1,545	(3,157)
Changes in net position before capital grants	(1,159,193)	850,733	439,897
Capital grants (Note 18)	<u>68,873</u>	<u>65,567</u>	<u>58,973</u>
Changes in net position before other comprehensive income	(1,090,320)	916,300	498,870
Other comprehensive income			
Change in unrealized gain (loss) on securities	<u>30,035</u>	<u>12,784</u>	<u>22,941</u>
Changes in net position	<u>(1,060,285)</u>	<u>929,084</u>	<u>521,811</u>
Beginning net position	<u>4,136,498</u>	<u>3,207,414</u>	<u>2,685,603</u>
Ending net position	\$ <u>3,076,213</u>	\$ <u>4,136,498</u>	\$ <u>3,207,414</u>

See accompanying notes to financial statements.

Ward 3, 4 and 10 Hospital Service District  
Of the Parish of Union, State of Louisiana  
Reeves Memorial Medical Center  
Statements of Cash Flows  
Years Ended December 31,

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:			
Cash received from patients and third-party payors	\$ 5,621,940	\$ 4,768,002	\$ 5,293,443
Other receipts from operations	487,994	2,000,965	1,066,485
Cash payments to employees and for employee-related cost	(3,363,844)	(3,479,356)	(2,658,254)
Cash payments for other operating expenses	<u>(3,328,364)</u>	<u>(2,994,042)</u>	<u>(2,973,688)</u>
Net cash provided (used) by operating activities	<u>(582,274)</u>	<u>295,569</u>	<u>727,986</u>
Cash flows from investing activities:			
Investments	150,000	(300,000)	-0-
Interest income	<u>21,272</u>	<u>24,304</u>	<u>19,741</u>
Net cash provided (used) by investing activities	<u>171,272</u>	<u>(275,696)</u>	<u>19,741</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(302,735)	(356,965)	(238,990)
Proceeds from sale of assets	-0-	-0-	(240)
Proceeds from capital grants	68,873	65,567	58,973
Bond issue costs	6,318	385	385
Cash invested in assets limited as to use	(1,509,970)	(5,976)	(4,456)
Proceeds from long-term debt	2,016,232	47,097	-0-
Payments on long-term debt	(506,791)	(27,771)	(21,724)
Interest expense on long-term debt	<u>(29,093)</u>	<u>(22,759)</u>	<u>(22,658)</u>
Net cash provided (used) by capital and related financing activities	<u>(257,166)</u>	<u>(300,422)</u>	<u>(228,710)</u>
Net increase (decrease) in cash and cash equivalents	(668,168)	(280,549)	519,017
Beginning cash and cash equivalents	<u>994,920</u>	<u>1,275,469</u>	<u>756,452</u>
Ending cash and cash equivalents	\$ <u>326,752</u>	\$ <u>994,920</u>	\$ <u>1,275,469</u>

See accompanying notes to financial statements.

Ward 3, 4 and 10 Hospital Service District  
Of the Parish of Union, State of Louisiana  
Reeves Memorial Medical Center  
Statements of Cash Flows (Continued)  
Years Ended December 31,

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Reconciliation of income from operations to net cash provided by operating activities:			
Operating income (loss)	\$ (1,151,372)	\$ 849,188	\$ 443,054
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	221,353	236,705	359,348
Changes in:			
Accounts receivable, net	289,856	(609,753)	(86,769)
Estimated third-party payor settlements	376,525	(127,990)	61,267
Other receivable	(292,582)	133,277	(312,045)
Inventory	(57)	17,809	35,360
Prepaid expenses	13,564	(26,021)	11,278
Accounts payable	(64,802)	85,510	(135,997)
Accrued expenses and withholdings payable	25,241	36,860	52,474
Deferred revenue	<u>-0-</u>	<u>(300,016)</u>	<u>300,016</u>
Net cash provided (used) by operating activities	\$ <u>(582,274)</u>	\$ <u>295,569</u>	\$ <u>727,986</u>
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	\$ <u>29,093</u>	\$ <u>22,759</u>	\$ <u>22,658</u>
Unrealized gain (loss) recorded to investments and net position	\$ <u>30,035</u>	\$ <u>12,784</u>	\$ <u>22,941</u>

See accompanying notes to financial statements.



Ward 3, 4 and 10 Hospital Service District  
Of the Parish of Union, State of Louisiana  
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Notes to Financial Statements  
Years Ended December 31, 2013, 2012, and 2011

NOTE 1 - ORGANIZATION AND OPERATIONS

Legal Organization

Ward 3, 4 and 10 Hospital Service District of the Parish of Union, State of Louisiana (referred to as the "District") was created by an ordinance of the Union Parish Police Jury on July 11, 1967, and beginning September 2010 is referred to as Reeves Memorial Medical Center.

The District is a political subdivision of the Union Parish Police Jury whose jurors are elected officials. Its commissioners are appointed by the Union Parish Police Jury. As the governing authority of the Parish, for reporting purposes, the Union Parish Police Jury is the financial reporting entity for the District. Accordingly, the District was determined to be a component unit of the Union Parish Police Jury based on Statement No. 14 of the National Committee on Governmental Accounting. The accompanying financial statements present information only on the funds maintained by the District and do not present information on the police jury, the general governmental services provided by that governmental unit or the other governmental units that comprise the financial reporting entity.

Nature of Business

The District provides outpatient, emergency, rural health clinic, acute inpatient, and skilled nursing (through "swing beds") services. The District converted to a Medicare critical care hospital (CAH) on December 30, 2005.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the District conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

Enterprise Fund

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting

The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic measurement focus.

Ward 3, 4 and 10 Hospital Service District  
Of the Parish of Union, State of Louisiana  
Reeves Memorial Medical Center  
Notes to Financial Statements  
Years Ended December 31, 2013, 2012, and 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of deposits in checking and money market accounts and certificates of deposit with original maturities of 90 days or less. Certificates of deposits with original maturities over 90 days are classified as short-term investments. Cash and cash equivalents and short-term investments are stated at cost, which approximates market value. The caption "cash and cash equivalents" does not include amounts whose use is limited or temporary cash investments.

Credit Risk

The District provides medical care primarily to Union Parish residents and grants credit to patients, substantially all of whom are local residents.

The District's estimate of collectibility is based on evaluation of historical collections compared to gross charges and an analysis of aged accounts receivable to establish an allowance for uncollectible accounts.

Significant Concentration of Economic Dependence

The District has an economic dependence on a small number of staff physicians. These physicians admit over 90% of the Hospital's patients. The District also has an economic dependence on Medicare and Medicaid as sources of payments as shown in the table in Note 12. Accordingly, changes in federal or state legislation or interpretations of rules have a significant impact on the District.

Net Patient Service Revenues

The District has entered into agreements with third-party payors, including government programs, health insurance companies, and managed care health plans, under which the Hospital is paid based upon established charges, the cost of providing services, predetermined rates per diagnosis, fixed per diem rates, or discounts from established charges.

Revenues are recorded at estimated amounts due from patients and third-party payors for the Hospital services provided. Settlements under reimbursement agreements with third-party payors are estimated and recorded in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

Patient Accounts Receivable

Patient accounts receivable are carried at a net amount determined by the original charges for the services provided, less an estimate made for contractual adjustments or discounts provided to the third party payors, less any payments received and less an estimated allowance for doubtful accounts. Management determines the allowance for doubtful accounts by utilizing a historical experience applied to an aging of accounts. Patient account receivables are written off as bad debt expense when deemed uncollectible. Recoveries of

Ward 3, 4 and 10 Hospital Service District  
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Years Ended December 31, 2013, 2012, and 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

receivables previously written off as bad debt expense are recorded as a reduction of bad debt expense when received.

Inventory

Inventories are stated at the lower of cost or market value. Cost is determined by the first-in, first-out method.

Income Taxes

The entity is a political subdivision and exempt from taxation.

Capital Assets

Capital assets are recorded at cost for purchased assets or at fair market value on the date of any donation. The District uses straight-line method of determining depreciation for financial reporting and third-party reimbursement. The following estimated useful lives are generally used:

Buildings	15 to 40 years
Machinery and Equipment	5 to 20 years
Furniture and Fixtures	5 to 15 years

Expenditures for additions, major renewals and betterments are capitalized and expenditures for maintenance and repairs are charged to operations when incurred.

The cost of assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts in the year of disposal. Gains or losses resulting from property disposal are currently credited or charged to nonoperating revenue.

Net Position

The District classifies net position into three components: invested in capital assets, net of related debt; restricted, and unrestricted. Invested in capital assets, net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted consists of assets that have constraints that are externally imposed by creditors (such as through debt covenants), grantors, or contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. Unrestricted are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues and Expenses

The District's Statements of Changes in Revenues, Expenses, and Net Position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the District's principal activity. Operating revenue also includes property taxes passed to provide the District with revenue to operate and maintain the District. Nonexchange revenues are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Grants and Contributions

From time to time, the District receives grants and contributions from the State of Louisiana, individuals or private and public organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose(s) are reported as operating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Charity Care

The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year classification.

Risk Management

The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and medical malpractice. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impact of Recently Issued Accounting Principles

In March 2012, The Governmental Accounting Standards Board (GASB) issued Statement 65, Items Previously Reported as Assets and Liabilities. The objective of GASB 65 is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets or liabilities as outflows of resources (expenses or expenditures) or inflows of resources. The provisions of the statement are effective for periods beginning after December 15, 2012. During 2013, the District adopted the statement and applied the provisions to bond issuance costs that were incurred in fiscal year 2013. Due to the adoption of GASB 65 ending net position was decreased by \$82,177 of bond issue costs associated with the issuance of 2013 revenue bonds R-1 and R-2. Prior years amortization of bond issue costs were immaterial (\$385) and no restatement of prior year net position is required.

NOTE 3 - DEPOSITS AND INVESTMENTS

Investing is performed in accordance with investment policies complying with state statutes. Funds may be invested in direct obligations of the United States Government and its agencies pledged by its full faith and credit, certificates of deposit, and savings accounts which are secured by FDIC or pledge of securities, and government backed mutual or trust funds. Louisiana law requires banks and savings and loan associations to secure a government's deposits (cash in banks) by pledging qualifying securities as collateral. For this purpose "cash in banks" is comprised of the account balances according to the bank's records.

Account balances according to bank's records at December 31, 2013, for the District are as follows:

	Community Trust Bank Cash	Community Trust Bank Certificates of Deposits
Cash in banks	\$ <u>1,944,522</u>	\$ <u>312,924</u>
Insured by FDIC	\$ <u>250,000</u>	\$ <u>250,000</u>
Collateralization at fair market value	\$ <u>1,694,522</u>	\$ <u>62,924</u>
Uncollateralized	\$ <u>-0-</u>	\$ <u>-0-</u>

Custodial Credit Risks ~ Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. Louisiana state statutes require that all of the deposits of the

Ward 3, 4 and 10 Hospital Service District  
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NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

District be protected by insurance or collateral. The fair value of the collateral pledged must equal 100% of the deposits not covered by insurance. The District's deposits were entirely insured or entirely collateralized by securities held by the pledging bank's trust department in the District's name at December 31, 2013, 2012, and 2011.

Interest Rate Risks – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer an investment takes to mature, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

The carrying amount of deposits and investments are included in the District's balance sheets as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Carrying amount			
Deposits	\$ 326,752	\$ 994,920	\$ 1,275,469
Investments	352,807	502,807	202,807
Donated stocks	<u>182,039</u>	<u>152,004</u>	<u>139,220</u>
	\$ <u>861,598</u>	\$ <u>1,649,731</u>	\$ <u>1,617,496</u>
Included in the following balance sheet captions			
Cash and cash equivalents	\$ 326,752	\$ 994,920	\$ 1,275,469
Investments	<u>534,846</u>	<u>654,811</u>	<u>342,027</u>
	\$ <u>861,598</u>	\$ <u>1,649,731</u>	\$ <u>1,617,496</u>

Investment in LHA Trust consists of allocations of equity from the Louisiana Hospital Association Malpractice and Worker's Compensation Trust Funds. Allocations consist of Capital Reserve funds set aside for the District.

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NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Investments in marketable equity securities consist of stocks donated to the District in 1988. An analysis at December 31 is as follows:

		----- Fair Value -----		
	<u>Shares</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Exxon Corporation	800	\$ 80,960	\$ 69,240	\$ 67,808
Pfizer	3300	<u>101,079</u>	<u>82,764</u>	<u>71,412</u>
Total market value		182,039	152,004	139,220
Less cost basis		<u>(14,456)</u>	<u>(14,456)</u>	<u>(14,456)</u>
Unrealized gain (loss)		\$ <u>167,583</u>	\$ <u>137,548</u>	\$ <u>124,764</u>

The District records these registered securities under the provision of the FASB Statement No. 115. These securities are classified as available for sale and are therefore recorded at fair value and unrealized gains are recognized as a component of fund equity. Fair values are based upon quoted market prices as of the fiscal year end.

NOTE 4 - ACCOUNTS RECEIVABLE

A summary of accounts receivable is presented below:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Patient accounts receivable	\$ 1,858,858	\$ 2,095,098	\$ 1,255,432
Other accounts receivable	<u>3,633</u>	<u>3,633</u>	<u>571</u>
	1,862,491	2,098,731	1,256,003
Estimated uncollectibles	<u>(1,018,521)</u>	<u>(964,905)</u>	<u>(731,930)</u>
Net patient accounts receivable	\$ <u>843,970</u>	\$ <u>1,133,826</u>	\$ <u>524,073</u>

Ward 3, 4 and 10 Hospital Service District  
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NOTE 4 - ACCOUNTS RECEIVABLE (Continued)

The following is a summary of the mix of gross receivables from patients and third-party payors at December 31:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Medicare	26%	28%	27%
Medicaid	15%	19%	9%
Commercial and other third-party payors	21%	14%	12%
Patients	<u>38%</u>	<u>39%</u>	<u>52%</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>

NOTE 5 - CAPITAL ASSETS

The following is a summary of capital assets and related accumulated depreciation:

	December 31, <u>2012</u>	<u>Additions</u>	<u>Dispositions</u>	December 31, <u>2013</u>
Land	\$ 30,614	\$ -0-	\$ -0-	\$ 30,614
Land improvements	32,060	-0-	-0-	32,060
Leasehold improvements	8,060	-0-	-0-	8,060
Buildings	1,542,673	22,371	-0-	1,565,044
Fixed equipment	271,289	149,000	-0-	420,289
Major moveable equipment	2,324,965	118,362	13,447	2,429,880
Transportation equipment	45,205	12,996	-0-	58,201
Minor equipment	1,477	-0-	-0-	1,477
Construction in progress	<u>260</u>	<u>187,132</u>	<u>187,126</u>	<u>266</u>
Total	4,256,603	489,861	200,573	4,545,891
Accumulated depreciation	<u>2,908,795</u>	<u>221,353</u>	<u>13,447</u>	<u>3,116,701</u>
Net capital assets	\$ <u>1,347,808</u>	\$ <u>268,508</u>	\$ <u>187,126</u>	\$ <u>1,429,190</u>



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Notes to Financial Statements  
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NOTE 5 - CAPITAL ASSETS (Continued)

The following is a summary of capital assets and related accumulated depreciation:

	December 31, <u>2011</u>	<u>Additions</u>	<u>Dispositions</u>	December 31, <u>2012</u>
Land	\$ 30,614	\$ -0-	\$ -0-	\$ 30,614
Land improvements	32,060	-0-	-0-	32,060
Leasehold improvements	8,060	-0-	-0-	8,060
Buildings	1,321,290	221,383	-0-	1,542,673
Fixed equipment	271,289	-0-	-0-	271,289
Major moveable equipment	2,203,104	162,255	40,394	2,324,965
Transportation equipment	45,205	-0-	-0-	45,205
Minor equipment	1,477	-0-	-0-	1,477
Construction in progress	<u>26,933</u>	<u>216,641</u>	<u>243,314</u>	<u>260</u>
 Total	 3,940,032	 600,279	 283,708	 4,256,603
Accumulated depreciation	<u>2,712,484</u>	<u>236,705</u>	<u>40,394</u>	<u>2,908,795</u>
 Net capital assets	 \$ <u>1,227,548</u>	 \$ <u>363,574</u>	 \$ <u>243,314</u>	 \$ <u>1,347,808</u>

The following is a summary of capital assets and related accumulated depreciation:

	December 31, <u>2010</u>	<u>Additions</u>	<u>Dispositions</u>	December 31, <u>2011</u>
Land	\$ 30,614	\$ -0-	\$ -0-	\$ 30,614
Land improvements	32,060	-0-	-0-	32,060
Leasehold improvements	8,060	-0-	-0-	8,060
Buildings	1,233,166	94,597	6,473	1,321,290
Fixed equipment	295,026	-0-	23,737	271,289
Major moveable equipment	2,147,677	117,701	62,274	2,203,104
Transportation equipment	45,205	-0-	-0-	45,205
Minor equipment	1,477	-0-	-0-	1,477
Construction in progress	<u>-0-</u>	<u>26,933</u>	<u>-0-</u>	<u>26,933</u>
 Total	 3,793,285	 239,231	 92,484	 3,940,032
Accumulated depreciation	<u>2,445,379</u>	<u>359,348</u>	<u>92,243</u>	<u>2,712,484</u>
 Net capital assets	 \$ <u>1,347,906</u>	 \$ <u>(120,117)</u>	 \$ <u>241</u>	 \$ <u>1,227,548</u>

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NOTE 6 - ASSETS WHOSE USE IS LIMITED

The following assets are restricted as to use as designated below:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
<u>Restricted by third-parties</u>			
Bond construction fund	\$ 1,467,340	\$ -0-	\$ -0-
Bond paying agent fund	60,072	-0-	-0-
Bond reserve fund	-0-	25,221	22,530
Bond contingency fund	<u>33,000</u>	<u>25,221</u>	<u>22,530</u>
 Total assets limited as to use	 \$ <u>1,560,412</u>	 \$ <u>50,442</u>	 \$ <u>45,060</u>

NOTE 7 - OTHER ASSETS

Other assets consist of the following:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Meter deposits	\$ 1,814	\$ 1,814	\$ 1,220
Unamortized bond issue costs	<u>-0-</u>	<u>6,318</u>	<u>6,703</u>
 Total	 \$ <u>1,814</u>	 \$ <u>8,132</u>	 \$ <u>7,923</u>

NOTE 8 - LONG-TERM DEBT

The following is a summary of the changes in long-term debt at December 31, 2013, 2012, and 2011:

	December 31, <u>2012</u>	<u>Additions</u>	<u>Payments</u>	December 31, <u>2013</u>	Due Within <u>One Year</u>
Lease payable	\$ 42,050	\$ 16,232	\$ 30,852	\$ 27,430	\$ 14,065
Series 2013 Hospital Revenue Bonds - R-1	-0-	1,550,000	4,773	1,545,227	58,184
Series 2013 Hospital Revenue Bonds - R-2	-0-	450,000	2,223	447,777	27,096
Series 2002 Hospital Revenue Bonds	<u>468,943</u>	<u>-0-</u>	<u>468,943</u>	<u>-0-</u>	<u>-0-</u>
 Total	 \$ <u>510,993</u>	 \$ <u>2,016,232</u>	 \$ <u>506,791</u>	 \$ <u>2,020,434</u>	 \$ <u>99,345</u>

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Years Ended December 31, 2013, 2012, and 2011

NOTE 8 - LONG-TERM DEBT (Continued)

	December 31, <u>2011</u>	<u>Additions</u>	<u>Payments</u>	December 31, <u>2012</u>	Due Within <u>One Year</u>
Lease payable	\$ -0-	\$ 47,097	\$ 5,047	\$ 42,050	\$ 11,753
Series 2002 Hospital Revenue Bonds	<u>491,667</u>	<u>-0-</u>	<u>22,724</u>	<u>468,943</u>	<u>23,765</u>
Total	\$ <u>491,667</u>	\$ <u>47,097</u>	\$ <u>27,771</u>	\$ <u>510,993</u>	\$ <u>35,518</u>

	December 31, <u>2010</u>	<u>Additions</u>	<u>Payments</u>	December 31, <u>2011</u>	Due Within <u>One Year</u>
Series 2002 Hospital Revenue Bonds	\$ <u>513,391</u>	\$ <u>-0-</u>	\$ <u>21,724</u>	\$ <u>491,667</u>	\$ <u>22,721</u>
Total	\$ <u>513,391</u>	\$ <u>-0-</u>	\$ <u>21,724</u>	\$ <u>491,667</u>	\$ <u>22,721</u>

The following is the term and due date of the Hospital's long-term debt at December 31:

- On November 20, 2013, Series 2013 Hospital Service Bonds, known as R-1, were issued in the principal amount of \$1,550,000, at 2.9%, rate subject to change in 2018, 2023, and 2028, due in 2033, collateralized by a pledge and dedication of District revenue. These bonds are further secured by a mortgage of all properties owned by the District. They will mature 20 years from the date of delivery.
- On November 20, 2013, Series 2013 Hospital Service Bonds, known as R-2, were issued in the principal amount of \$450,000, at 2.9%, rate subject to change in 2018 and 2023, due in 2026, collateralized by a pledge and dedication of District revenue. These bonds are further secured by a mortgage. They will mature on their monthly anniversary date in August 2027.
- On August 20, 2002, Series 2002 Hospital Service Bonds were issued at 4.5%, due in 2027, collateralized by a pledge and dedication of District revenue. These bonds were paid off in 2013 using the Series 2013 Hospital Service Bonds, known as R-2.
- Lease payable at 6.2% for radiology equipment, due in 36 monthly installments of \$1,501 each.

The District has covenanted to set rates so that revenues are sufficient to pay all reasonable and necessary expenses of operating and maintaining the District.

Ward 3, 4 and 10 Hospital Service District  
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NOTE 8 - LONG-TERM DEBT (Continued)

Scheduled principal and interest payments on long-term debt are as follows:

<u>Year ending December 31,</u>	<u>Long-term Debt</u>		<u>Capital Lease Obligations</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 87,787	\$ 54,163	\$ 13,365	\$ 476
2016	90,367	51,583	-0-	-0-
2017	93,022	48,927	-0-	-0-
2018	95,757	46,194	-0-	-0-
2019-2023	522,687	187,066	-0-	-0-
2024-2033	<u>1,018,104</u>	<u>141,297</u>	<u>-0-</u>	<u>-0-</u>
Total	\$ <u>1,907,724</u>	\$ <u>529,230</u>	\$ <u>13,365</u>	\$ <u>476</u>

NOTE 9 - ACCRUED EXPENSES AND WITHHOLDINGS PAYABLE

Accrued expenses and withholdings payable at December 31 consist of the following:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Accrued interest	\$ 2,952	\$ 636	\$ 683
Accrued payroll taxes	14,336	15,002	12,998
State and federal income taxes payable	3,391	3,259	2,901
State unemployment tax payable	8,068	11,818	11,759
Accrued expenses	2,623	1,749	4,595
Accrued vacation	156,693	124,530	115,717
Accrued payroll	<u>123,576</u>	<u>129,404</u>	<u>100,885</u>
Total	\$ <u>311,639</u>	\$ <u>286,398</u>	\$ <u>249,538</u>

NOTE 10 - COMPENSATED ABSENCES

Employees of the District are entitled to paid time off and extended illness benefit days depending on job classification, length of service, and other factors. It is impracticable to estimate the amount of accrued compensation for future extended illness benefit days and, accordingly, no liability has been recorded in the accompanying financial statements. However, vested paid time off has been recorded as a liability in the accompanying financial statements at employee earning rates in effect at the balance sheet date.

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NOTE 11 - RETIREMENT PLAN

On June 30, 2007, the District began the Reeves Memorial Medical Center 403(b) Plan, which is a tax sheltered annuity (TSA) plan for employees of certain tax-exempt organizations. The plan was established in accordance with Section 403(b) of the *Internal Revenue Code of 1986*, as amended. Security Benefits was the Plan's third party administrator. On January 1, 2012, the District terminated the 403(b) Plan and instituted the Reeves Memorial Medical Center 457 Plan, which is a tax sheltered annuity. Security Benefits is the Plan's third party administrator. At December 31, 2013 there were 35 plan members. Employees are eligible to participate in the plan beginning on the date of hire, with a maximum contribution of up to 100% of compensation. The 2013 contribution limit for those under age 50 is \$17,500 and for those 50 or older the limit is \$23,000. The District has elected to match 100% of the first 2% of the participating employees' compensation deferred to the plan. The District may choose to make annual discretionary non-elective contributions based on the employees' compensation during the plan year. The District holds all rights to change and/or stop its contribution at any time. Employees are immediately vested in their contributions. The District has a five-year vesting schedule that applies to the employer matching and non-elective contributions. The District's contributions were \$30,974, \$30,206, and \$27,970, compared to employee contributions of \$73,992, \$72,396, and \$66,253 for the years ended December 31, 2013, 2012, and 2011.

NOTE 12 - NET PATIENT SERVICE REVENUE

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare - The District became a Medicare "Critical Access Hospital" (CAH) effective December 30, 2005. This designation enables the District to receive cost based reimbursement for most services provided to Medicare beneficiaries on or after this date, including Swing Bed and rural health clinic services.

The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary. The District's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the District.

Medicaid - Inpatient services are reimbursed based on a prospectively determined per diem rate. Some Medicaid outpatient services are reimbursed under a cost reimbursement methodology, while others are paid on a prospectively determined fee schedule. Rural health clinic services were paid based on a prospectively determined rate per visit until June 30, 2008, when it changed to a cost reimbursement methodology. The District is reimbursed at a tentative rate for cost based services with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid fiscal intermediary.

Commercial - The District has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

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NOTE 12 - NET PATIENT SERVICE REVENUE (Continued)

The following is a summary of the Hospital's net patient service revenues for the years ended December 31:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Gross patient service revenues	\$ 6,339,621	\$ 6,483,339	\$ 6,743,647
Medicare and Medicaid contractual adjustments	52,430	(113,880)	(497,348)
Provision for bad debt	(823,174)	(764,295)	(663,720)
Administrative and other adjustments	(528,089)	(464,788)	(447,569)
Charity care	(85,229)	(62,637)	(67,465)
Uncompensated care reimbursement	<u>-0-</u>	<u>300,016</u>	<u>300,016</u>
Net patient service revenues	\$ <u>4,955,559</u>	\$ <u>5,377,755</u>	\$ <u>5,367,561</u>

The District receives a substantial portion of its revenues from the Medicare and Medicaid programs at discounted rates. The following is a summary of Medicare and Medicaid charges for the years ended December 31:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Medicare and Medicaid charges	\$ 4,641,358	\$ 4,380,628	\$ 4,895,898
Contractual adjustments	<u>52,430</u>	<u>(113,880)</u>	<u>(497,348)</u>
Program patient service revenue	\$ <u>4,693,788</u>	\$ <u>4,266,748</u>	\$ <u>4,398,550</u>
Percent of total gross patient charges	<u>73%</u>	<u>68%</u>	<u>73%</u>
Percent of total net patient revenues	<u>95%</u>	<u>79%</u>	<u>82%</u>

Patient service revenues increased (decreased) to reflect adjustments to prior year third party receivables or payor estimates. A Medicare Electronic Health Records (EHR) audit of fiscal year 2011 resulted in a decrease of \$257,062 compared to increases from prior year Medicaid cost report settlements of \$59,459 and \$44,350.

The District received interim amounts of \$-0-, \$300,016, and \$300,016 for Medicaid and self-pay uncompensated care services (UCC) for the years ended December 31, 2013, 2012, and 2011, respectively, which represents 0%, 6%, and 6% of net patient revenues. The interim amounts received are based upon uncompensated cost incurred in previous years. Current regulations require retroactive audit of the claimed uncompensated cost and comparison to the interim amounts paid by Medicaid in each fiscal year. Any overpayments will be recouped by Medicaid and the District has not made any provisions for such

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NOTE 12 - NET PATIENT SERVICE REVENUE (Continued)

recoupments. Current regulations do not provide for settlement of underpayments by Medicaid. Management contends interim amounts paid reasonably estimate final settlement. To the extent management's estimates differ from actual results, the differences will be used to adjust income for the period when differences arise. Future UCC payments are dependent upon State appropriations, which require annual approval by the state legislature. Should the State not fund or substantially change this program, it would have a significant impact on the Hospital's revenue. In 2012, the District began participation in a grant program with other hospitals (See Note 18) which supplements payments previously paid under UCC.

NOTE 13 - PATIENT PROTECTION AND AFFORDABLE CARE ACT (PPACA)

The PPACA was passed into law in 2010. This federal legislation is extremely complex and will substantially change the landscape of the healthcare industry. The PPACA has the potential to affect both payment rates and coverage issues for all healthcare payors. While the overall impact of the PPACA cannot currently be estimated, it could have a negative impact on the District's revenues.

NOTE 14 - CHARITY CARE

The District provides charity care to patients who are financially unable to pay for part or all of the healthcare services they receive. The patient will either qualify for 100% of charity care or owe a reduced "sliding scale" amount based on the patient's level of income in comparison to the Federal poverty Guidelines based on a 200% scale. Accordingly the District does not report the amounts it expects not to collect in net operating revenues or in the allowance for doubtful accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including wages and related benefits, supplies, and other operating expenses. The costs of caring for charity care patients were approximately \$107,459, \$82,164, and \$72,242 in 2013, 2012, and 2011, respectively. Funds received through UCC and grants, which pay part of the cost of charity and uninsured care, were approximately \$414,883, \$985,505 and \$696,800, in 2013, 2012, and 2011.

NOTE 15 - PROPERTY TAX REVENUE

The District levies property taxes for the maintenance and operation of the facility. The taxes are collected by the Union Parish Sheriff's office for an 8% collection fee. Property tax notices are mailed by November 15 each year and are due by December 31. The lien date is January 31. The special maintenance and operation millage is a ten-year tax assessed on all taxable property within the District at the rate of 10.45 mills. The 5.11 mills tax, which expired December 31, 2005, was renewed for the period 2006 through 2015. The 5.34 mills tax, which expired in 2011, was renewed for the period 2012 through 2021.

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**NOTE 16 - PROFESSIONAL LIABILITY RISK**

The District participates in the Louisiana Patient's Compensation Fund ("PCF") established by the State of Louisiana to provide medical professional liability coverage to health care providers. The fund provides for \$400,000 in coverage per occurrence above the first \$100,000 per occurrence for which the District is at risk. The fund places no limitation on the number of occurrences covered. In connection with the establishment of the PCF, the State of Louisiana enacted legislation limiting the amount of healthcare provider settlement for professional liability to \$100,000 per occurrence and limiting the PCF's exposure to \$400,000 per occurrence.

The District's membership in the Louisiana Hospital Association Trust Fund provides additional coverage for professional medical malpractice liability and worker's compensation. The trust fund bills members in advance, based upon an estimate of their exposure. At policy year-end, premiums are redetermined utilizing actual losses of the District. The trust fund presumes to be a "Grantor Trust" and, accordingly, income and expenses are prorated to member hospitals. The District has included these allocations and equity in the trust in its financial statements.

**NOTE 17 - CONTINGENCIES**

The District evaluates contingencies based upon the best available evidence. The District believes that no allowances for loss contingencies are considered necessary. To the extent that resolution of contingencies results in amounts which vary from the District's estimates, future earnings will be charged or credited.

The principal contingencies are described below:

Governmental Third-Party Reimbursement Programs (Note 12) - The District is contingently liable for retroactive adjustments made by the Medicare and Medicaid programs as the result of their examinations as well as retroactive changes in interpretations applying statutes, regulations, and general instructions of those programs. The amount of such adjustments cannot be determined.

Further, in order to continue receiving reimbursement from the Medicare program, the District entered into an agreement with a government agent allowing the agent access to the District's Medicare patient medical records for purposes of making medical necessity and appropriate level of care determinations. The agent has the ability to deny reimbursement for Medicare patient claims which have already been paid to the District.

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as privacy, licensure, accreditation, government healthcare program participating requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.



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NOTE 17 - CONTINGENCIES (Continued)

Management believes that the District is in compliance with fraud and abuse statutes as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Professional Liability Risk (Note 16) - The District is contingently liable for losses from professional liability not underwritten by the Louisiana Patient's Compensation Fund or the Louisiana Hospital Association Trust Fund as well as for assessments by the Louisiana Hospital Association Trust Fund.

Worker's Compensation Risk - The District carries worker's compensation insurance through the Louisiana Hospital Association Trust Fund. Should the fund's assets not be adequate to cover claims made against it, the District may be assessed its pro rata share of the resulting deficit. It is not possible to estimate the amount of additional assessments, if any.

Litigation and other matters in the ordinary course of business are pending against the District. In the opinion of management and counsel, insurance is sufficient to cover adverse legal determination in the case where liability can be measured.

NOTE 18 - GRANT REVENUE

In 2013, the District received grants totaling \$504,756. Medicaid paid the District approximately \$55,573 during the year ended December 31, 2013 as an incentive for implementing electronic health records. Payments can be retained and additional payments can be earned if the District meets certain criteria in future implementation, subject to audit. The District received grants totaling \$414,883 to be used solely to provide adequate and essential medically necessary health care services to the citizens in its community who are low income and/or indigent patients. As a condition of the grant agreement, the District, along with the other participating hospitals, has agreed to indemnify the grantors for claims that may arise out of this grant agreement. Various other grants were received during the year for other purposes.

In 2012, the District received grants totaling \$1,734,653. Medicaid paid the District approximately \$166,284 and \$507,353 was received from Medicare during the year ended December 31, 2012 as an incentive for implementing electronic health records. Payments can be retained and additional payments can be earned if the District meets certain criteria in future implementation, subject to audit. The District received grants totaling \$985,505 to be used solely to provide adequate and essential medically necessary health care services to the citizens in its community who are low income and/or indigent patients. As a condition of the grant agreement, the District, along with the other participating hospitals, has agreed to indemnify the grantors for claims that may arise out of this grant agreement. Various other grants were received during the year for other purposes.

In 2011, the District received grants totaling \$1,042,312. Medicaid paid the District approximately \$277,139 during the year ended December 31, 2011 as an incentive for implementing electronic health records. The key component of receiving the EHR incentive payments is "demonstrating meaningful use", which is meeting a series of objectives that make use of an EHR's potential related to the improvement of quality, efficiency, and

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NOTE 18 - GRANT REVENUE (Continued)

patient safety. The Centers for Medicare and Medicaid has indicated that demonstrating meaningful use will be phased in during the next few years in three stages, with each progressive stage incorporating more stringent measures. The District met Stage 1 criteria during fiscal year 2011, which included electronically capturing health information in a coded format and using certified EHR technology to meet certain required core objectives for a continuous ninety day period. The District attested to Stage 1 criteria during fiscal year 2011 for year 3 and 2 grant receipts. The District's policy is to record the incentive payments once various stages have been met rather than recognizing ratably throughout the attestation period. In order to receive the incentive payments under each stage, a hospital must attest through a secure mechanism that they have met the meaningful use criteria. The EHR payments each year are based on management's best estimate. Payments can be retained and additional payments can be earned for each stage if the District meets certain criteria in future implementation. The EHR incentive payments are reimbursed at a tentative rate with final settlement determined after submittal of the annual cost reports and audits thereof by the fiscal intermediaries. The District received grants totaling \$696,800 to be used solely to provide adequate and essential medically necessary health care services to the citizens in its community who are low income and/or indigent patients. As a condition of the grant agreement, the District, along with the other participating hospitals, has agreed to indemnify the grantors for claims that may arise out of this grant agreement. Various other grants were received during the year for other purposes.

NOTE 19 - COMMITMENTS

In 2013, 2012, and 2011, coverage of the Emergency Room was provided by various individual physicians under contract with the District. The Rural Health Clinic was covered under an agreement based on a productivity formula for rural health visits.

NOTE 20 - SUBSEQUENT EVENT

The District entered into an agreement with Healthland in January 2014 for the purchase of a new computer system in the amount of \$441,533. At the same time a separate agreement was signed to upgrade the existing computer system for meaningful use in the amount of \$74,529. Events have been evaluated through June 23, 2014 for subsequent event disclosure. This date is the date the financial statements were available to be issued.

## SUPPLEMENTARY INFORMATION

Ward 3, 4 and 10 Hospital Service District  
Of the Parish of Union, State of Louisiana  
Reeves Memorial Medical Center  
Schedules of Net Patient Service Revenue  
Years Ended December 31,

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Daily patient services:			
Room and board	\$ 409,664	\$ 515,112	\$ 851,402
Swing	<u>229,639</u>	<u>200,177</u>	<u>302,092</u>
Total daily patient services	<u>639,303</u>	<u>715,289</u>	<u>1,153,494</u>
Other professional services:			
Radiology			
Inpatient	59,924	51,463	60,151
Outpatient	<u>521,111</u>	<u>446,972</u>	<u>356,119</u>
Total radiology	<u>581,035</u>	<u>498,435</u>	<u>416,270</u>
Laboratory			
Inpatient	101,883	116,472	177,115
Outpatient	<u>1,026,798</u>	<u>999,709</u>	<u>953,151</u>
Total laboratory	<u>1,128,681</u>	<u>1,116,181</u>	<u>1,130,266</u>
Blood			
Inpatient	22,872	23,746	56,568
Outpatient	<u>22,042</u>	<u>22,597</u>	<u>16,315</u>
Total blood	<u>44,914</u>	<u>46,343</u>	<u>72,883</u>
Respiratory therapy			
Inpatient	186,249	232,120	254,955
Outpatient	<u>35,613</u>	<u>38,404</u>	<u>31,053</u>
Total respiratory therapy	<u>221,862</u>	<u>270,524</u>	<u>286,008</u>
Physical therapy			
Inpatient	36,282	20,597	16,849
Outpatient	<u>158,356</u>	<u>207,866</u>	<u>117,049</u>
Total physical therapy	\$ <u>194,638</u>	\$ <u>228,463</u>	\$ <u>133,898</u>

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Schedules of Net Patient Service Revenue (Continued)  
Years Ended December 31,

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Occupational therapy			
Inpatient	\$ 41,006	\$ 22,608	\$ 20,356
Outpatient	<u>54,857</u>	<u>82,691</u>	<u>83,442</u>
Total occupational therapy	<u>95,863</u>	<u>105,299</u>	<u>103,798</u>
Speech therapy			
Inpatient	10,786	7,217	5,131
Outpatient	<u>662</u>	<u>-0-</u>	<u>76</u>
Total speech therapy	<u>11,448</u>	<u>7,217</u>	<u>5,207</u>
EKG			
Inpatient	3,775	3,300	3,272
Outpatient	<u>38,407</u>	<u>39,050</u>	<u>35,804</u>
Total EKG	<u>42,182</u>	<u>42,350</u>	<u>39,076</u>
Medical supply			
Inpatient	142,541	149,865	100,930
Outpatient	<u>60,629</u>	<u>89,447</u>	<u>100,712</u>
Total medical supply	<u>203,170</u>	<u>239,312</u>	<u>201,642</u>
Pharmacy			
Inpatient	364,371	397,439	548,297
Outpatient	<u>364,376</u>	<u>291,847</u>	<u>218,659</u>
Total pharmacy	<u>728,747</u>	<u>689,286</u>	<u>766,956</u>
Ophthalmology			
Outpatient	<u>17,425</u>	<u>11,609</u>	<u>8,963</u>
Total ophthalmology	\$ <u>17,425</u>	\$ <u>11,609</u>	\$ <u>8,963</u>

Ward 3, 4 and 10 Hospital Service District  
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Schedules of Net Patient Service Revenue (Continued)  
Years Ended December 31,

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Orthopedics			
Outpatient	\$ <u>-0-</u>	\$ <u>6,327</u>	\$ <u>-0-</u>
Total orthopedics	<u>-0-</u>	<u>6,327</u>	<u>-0-</u>
Rural health clinic			
Physician services	<u>1,195,548</u>	<u>1,119,125</u>	<u>1,061,491</u>
Total rural health clinic	<u>1,195,548</u>	<u>1,119,125</u>	<u>1,061,491</u>
Emergency room			
Inpatient	137,735	147,783	206,397
Outpatient	<u>1,068,327</u>	<u>1,220,305</u>	<u>1,134,180</u>
Total emergency room	<u>1,206,062</u>	<u>1,368,088</u>	<u>1,340,577</u>
Monitor			
Inpatient	21,307	15,019	19,398
Outpatient	<u>7,436</u>	<u>4,472</u>	<u>3,720</u>
Total monitor	<u>28,743</u>	<u>19,491</u>	<u>23,118</u>
Total other professional services	<u>5,700,318</u>	<u>5,768,050</u>	<u>5,590,153</u>
Gross patient service charges	<u>6,339,621</u>	<u>6,483,339</u>	<u>6,743,647</u>
Deductions from charges:			
Medicare and Medicaid contractual adjustments	(52,430)	113,880	497,348
Provision for bad debt	823,174	764,295	663,720
Administrative and other adjustments	528,089	464,788	447,569
Charity care	85,229	62,637	67,465
Uncompensated care reimbursement	<u>-0-</u>	<u>(300,016)</u>	<u>(300,016)</u>
Total deductions from charges	<u>1,384,062</u>	<u>1,105,584</u>	<u>1,376,086</u>
Net patient service revenue	\$ <u>4,955,559</u>	\$ <u>5,377,755</u>	\$ <u>5,367,561</u>

Ward 3, 4 and 10 Hospital Service District  
Of the Parish of Union, State of Louisiana  
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Schedules of Other Operating Revenue  
Years Ended December 31,

	<u>2013</u>	<u>2012</u>	<u>2011</u>
HPSA incentive	\$ 20,983	\$ 17,604	\$ 17,022
Dietary revenue	23,752	22,742	28,523
Health information	2,817	1,895	1,944
Discounts taken	9,809	11,319	8,846
Pharmacy revenue	6,651	4,270	3,257
Property insurance receipt	-0-	-0-	30,509
Miscellaneous revenue	<u>5,397</u>	<u>13,572</u>	<u>(3,042)</u>
 Total other revenue	 \$ <u>69,409</u>	 \$ <u>71,402</u>	 \$ <u>87,059</u>

Ward 3, 4 and 10 Hospital Service District  
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Schedules of Expenses - Salaries and Benefits  
Years Ended December 31,

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Administration	\$ 502,517	\$ 437,424	\$ 374,334
Plant maintenance	99,666	86,236	79,415
Housekeeping	43,742	49,159	57,649
Dietary	77,432	69,820	75,989
Social services	27,373	28,585	19,686
Nursing administration	86,503	77,906	211,099
Health information	118,448	91,411	132,658
Nursing services	703,123	761,027	580,346
Radiology	119,706	114,986	101,530
Laboratory	221,148	235,789	212,111
Respiratory therapy	23,066	31,029	30,106
EKG and EEG	5,013	4,636	4,740
Central supply	25,912	26,920	26,258
Pharmacy	124,748	121,397	55,312
Rural health clinic	395,503	383,582	385,760
Emergency room	<u>312,230</u>	<u>277,307</u>	<u>252,654</u>
 Total salaries	 <u>2,886,130</u>	 <u>2,797,214</u>	 <u>2,599,647</u>
 FICA/LUC	 210,247	 207,141	 216,000
Health/life insurance	160,739	142,514	131,922
457/403(b) matching contribution	31,934	30,206	27,970
Worker's compensation	<u>64,555</u>	<u>39,125</u>	<u>35,205</u>
 Total benefits	 <u>467,475</u>	 <u>418,986</u>	 <u>411,097</u>
 Total salaries and benefits	 \$ <u>3,353,605</u>	 \$ <u>3,216,200</u>	 \$ <u>3,010,744</u>



Ward 3, 4 and 10 Hospital Service District  
Of the Parish of Union, State of Louisiana  
Reeves Memorial Medical Center  
Schedules of Expenses - Medical Supplies and Drugs  
Years Ended December 31,

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Nursing services	\$ 7,685	\$ 9,786	\$ 14,055
Radiology	2,358	1,790	2,300
Laboratory	97,862	110,789	96,482
Blood	25,750	28,491	24,862
Respiratory therapy	10,906	16,348	13,556
Physical and occupational therapy	337	418	59
Pharmacy	153,291	145,807	145,152
Rural health clinic	31,880	34,798	27,691
Emergency room	4,089	8,627	7,032
Specialty clinic	<u>-0-</u>	<u>38</u>	<u>137</u>
 Total medical supplies and drugs	 \$ <u>334,158</u>	 \$ <u>356,892</u>	 \$ <u>331,326</u>

Ward 3, 4 and 10 Hospital Service District  
Of the Parish of Union, State of Louisiana  
Reeves Memorial Medical Center  
Schedules of Expenses - Professional Fees  
Years Ended December 31,

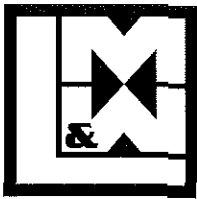
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Health information	\$ 4,907	\$ 4,926	\$ 1,050
Nursing	33,348	35,253	35,262
Radiology	11,129	11,452	9,360
Laboratory	92,933	83,720	99,897
Physical therapy	102,977	91,088	57,849
Occupational therapy	53,694	59,941	57,935
Speech therapy	5,266	3,406	2,446
Ophthalmology	8,203	10,540	3,382
Rural health clinic	246,355	263,726	215,586
Emergency room	702,664	704,085	679,106
Specialty clinic	<u>-0-</u>	<u>6,015</u>	<u>206</u>
 Total professional fees	 \$ <u>1,261,476</u>	 \$ <u>1,274,152</u>	 \$ <u>1,162,079</u>

Ward 3, 4 and 10 Hospital Service District  
Of the Parish of Union, State of Louisiana  
Reeves Memorial Medical Center  
Schedules of Expenses - Other Expenses  
Years Ended December 31,

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Purchased services	\$ 512,836	\$ 393,539	\$ 314,725
Accounting and legal	99,347	69,438	74,911
Non medical supplies	224,099	239,031	286,743
Repairs and maintenance	182,841	189,155	187,728
Utilities	98,505	89,125	97,097
Telephone	99,031	61,507	53,333
Travel	14,629	19,846	14,897
Rentals	165,367	142,577	139,086
Training	17,927	9,203	11,764
Promotion and advertising	5,273	6,848	2,821
Licensing and publications	21,902	34,745	49,275
Bond issue costs	88,497	-0-	-0-
Miscellaneous	43,097	50,610	26,090
Tax assessor fees	<u>23,702</u>	<u>21,757</u>	<u>23,107</u>
 Total other expenses	 \$ <u>1,597,053</u>	 \$ <u>1,327,381</u>	 \$ <u>1,281,577</u>

Ward 3, 4 and 10 Hospital Service District  
Of the Parish of Union, State of Louisiana  
Reeves Memorial Medical Center  
Schedules of Per Diem and Other Compensation Paid to Board Members  
Years Ended December 31,

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Board members:			
Isaac Payne	\$ 320	\$ 360	\$ 440
Jim Mabry	400	360	440
Penya Fields	360	280	280
Mike Holley	280	-0-	-0-
Jennifer Lenard	200	-0-	-0-
Bobby Couch	-0-	40	400
Timothy Clement	<u>40</u>	<u>280</u>	<u>200</u>
 Total	 \$ <u>1,600</u>	 \$ <u>1,320</u>	 \$ <u>1,760</u>



## LESTER, MILLER & WELLS

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### INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Commissioners  
Ward 3, 4 and 10 Hospital Service District  
Of the Parish of Union, State of Louisiana  
Reeves Memorial Medical Center  
Bernice, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Ward 3, 4 and 10 Hospital Service District of the Parish of Union, State of Louisiana d/b/a Reeves Memorial Medical Center (the "District"), a component unit of the Union Parish Police Jury, as of and for the years ended December 31, 2013, 2012, and 2011, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 23, 2014.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and that we consider to be significant deficiencies: 2013-1 and 2013-2.

Board of Commissioners  
Ward 3, 4 and 10 Hospital Service District  
Of the Parish of Union, State of Louisiana  
Reeves Memorial Medical Center  
Page Two

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance and no other matter that is required to be reported under Government Auditing Standards.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of the Board of Commissioners, management, and the office of the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants  
Alexandria, Louisiana

June 23, 2014



**Ward 3, 4 and 10 Hospital Service District  
Of the Parish of Union, State of Louisiana  
Reeves Memorial Medical Center  
Schedule of Current Year Findings and Responses  
Year Ended December 31, 2013**

**Section I. Summary of Auditors' Results**

*Financial Statements*

Type of auditors' report issued: unqualified

Internal control over financial reporting:

- Material weaknesses identified – No
- Significant deficiencies identified – Yes

Compliance:

- Noncompliance issues noted – No

Management letter issued – No

*Federal Awards* – Not applicable

**Section II. Financial Statement Findings**

**FINDING 2013-1 - Financial Statements**

**Finding:** In the past, the auditors were able to draft the financial statements with management accepting responsibility. Effective for financial statements ending on or after December 15, 2006, SAS 112 now requires management to ensure propriety and completeness of the financial statements and related footnotes. The staff responsible for preparation of financial statements and related footnote disclosures in accordance with generally accepted accounting principles (GAAP) lacks the resources necessary internally to complete the reporting requirements.

**Recommendation:** Management should either (a) obtain the resources necessary to internally prepare or review the auditors' preparation of the District's financial statements and related footnote disclosures in accordance with GAAP, or (b) determine if the cost overrides the benefit of correcting this control deficiency.

**Response:** Management has considered the recommendation and concluded that the implementation cost is greater than the benefit derived from correcting the control deficiency.

**FINDING 2013-2 - Segregation of Duties**

**Finding:** Due to a limited number of available employees, there is not a complete segregation of duties in all accounting, recording and custody functions.

**Recommendation:** We recommend that duties be segregated to the extent possible to prevent both intentional and unintentional errors. Segregation includes 1) separating transaction authorization from custody of related assets; 2) separating transaction recording from general ledger posting and maintenance; 3) separating operations responsibility from record-keeping. Where these segregations are not possible, we recommend close supervision and review.

**Ward 3, 4 and 10 Hospital Service District  
Of the Parish of Union, State of Louisiana  
Reeves Memorial Medical Center  
Schedule of Current Year Findings and Responses  
Year Ended December 31, 2013**

**Section II. Financial Statement Findings (Continued)**

**FINDING 2013-2 - Segregation of Duties (Continued)**

**Response:** Due to limited staffing with the technical skills to perform these duties, management feels that close supervision of the personnel assigned to those tasks is the preferred solution. Administration will continue to monitor these tasks on a daily basis.

**Section III. Federal Award Findings**

Not applicable

**Section IV. Management Letter**

Not applicable



**Ward 3, 4 and 10 Hospital Service District  
Of the Parish of Union, State of Louisiana  
Reeves Memorial Medical Center  
Schedule of Prior Year Findings and Responses  
Year Ended December 31, 2013**

**Section I. Financial Statement Findings**

**FINDING 2012-1 - Estimate of Cost Report Receivables**

**Finding:** The District did not record an accurate estimate for the current year Medicare and Louisiana Medicaid cost report settlement. Since Medicare interim reimbursement rates were understated, the amount due from Medicare and the related revenue were materially understated.

**Recommendation:** An interim cost report projection should be made and an estimate of the Medicare and Medicaid cost report should be recorded to accurately reflect the revenue.

**Response:** Management did obtain a mid-year projection based on current cost report data to more accurately determine cost report receivable/payable and related contractual allowances. Large decreases in inpatient and swing bed volume after this projection changed the projected receivable. Since Reeves Memorial Medical Center is a critical access hospital, increases in cost also contributed to the increase in projected receivable. In addition to a mid-year projection, management will review increases and/or decreases in volume and cost at or near year end and will estimate and record any material changes in reimbursement.

**Current Status:** This matter has been resolved.

**FINDING 2012-2 - Financial Statements**

**Finding:** In the past, the auditors were able to draft the financial statements with management accepting responsibility. Effective for financial statements ending on or after December 15, 2006, SAS 112 now requires management to ensure propriety and completeness of the financial statements and related footnotes. The staff responsible for preparation of financial statements and related footnote disclosures in accordance with generally accepted accounting principles (GAAP) lacks the resources necessary internally to complete the reporting requirements.

**Recommendation:** Management should either (a) obtain the resources necessary to internally prepare or review the auditors' preparation of the District's financial statements and related footnote disclosures in accordance with GAAP, or (b) determine if the cost overrides the benefit of correcting this control deficiency.

**Response:** Management has considered the recommendation and concluded that the implementation cost is greater than the benefit derived from correcting the control deficiency.

**Current Status:** This matter has not been resolved - see finding 2013-1

**FINDING 2012-3 - Segregation of Duties**

**Finding:** Due to a limited number of available employees, there is not a complete segregation of duties in all accounting, recording and custody functions.

**Ward 3, 4 and 10 Hospital Service District  
Of the Parish of Union, State of Louisiana  
Reeves Memorial Medical Center  
Schedule of Prior Year Findings and Responses  
Year Ended December 31, 2013**

**Section I. Financial Statement Findings (Continued)**

**FINDING 2012-3 - Segregation of Duties (Continued)**

**Recommendation:** We recommend that duties be segregated to the extent possible to prevent both intentional and unintentional errors. Segregation includes 1) separating transaction authorization from custody of related assets; 2) separating transaction recording from general ledger posting and maintenance; 3) separating operations responsibility from record-keeping. Where these segregations are not possible, we recommend close supervision and review.

**Current Status:** This matter has not been resolved - see finding 2013-2

**FINDING 2011-1 - Estimate of Cost Report Receivables**

**Fiscal Year Initially Reported:** December 31, 2011

**Finding:** The District did not record an accurate estimate for the current year Medicare and Louisiana Medicaid cost report settlement. Since Medicare interim reimbursement rates were understated, the amount due from Medicare and the related revenue were materially understated.

**Recommendation:** An interim cost report projection should be made and an estimate of the Medicare and Medicaid cost report should be recorded to accurately reflect the revenue.

**Response:** Management will obtain a mid-year projection based on current cost report data to more accurately determine cost report receivable/payable and related contractual allowances. In addition to a mid-year projection, management will review increases and/or decreases in volume and cost at or near year end and will estimate and record any material changes in reimbursement.

**Current Status:** This matter has been resolved - See finding 2012-1.

**FINDING 2011-3 - Financial Statements**

**Fiscal Year Initially Reported:** December 31, 2007

**Finding:** In the past, the auditors were able to draft the financial statements with management accepting responsibility. Effective for financial statements ending on or after December 15, 2006, SAS 112 now requires management to ensure propriety and completeness of the financial statements and related footnotes. The staff responsible for preparation of financial statements and related footnote disclosures in accordance with generally accepted accounting principles (GAAP) lacks the resources necessary internally to complete the reporting requirements.

**Recommendation:** Management should either (a) obtain the resources necessary to internally prepare or review the auditors' preparation of the District's financial statements and related footnote disclosures in accordance with GAAP, or (b) determine if the cost overrides the benefit of correcting this control deficiency.

**Response:** Management has considered the recommendation and concluded that the implementation cost is greater than the benefit derived from correcting the control deficiency.

**Ward 3, 4 and 10 Hospital Service District  
Of the Parish of Union, State of Louisiana  
Reeves Memorial Medical Center  
Schedule of Prior Year Findings and Responses  
Year Ended December 31, 2013**

**Section I. Financial Statement Findings (Continued)**

**FINDING 2011-3 - Financial Statements (Continued)**

**Current Status:** This matter has not been resolved - see finding 2013-1.

**FINDING 2011-4 -Segregation of Duties**

**Fiscal Year Initially Reported:** December 31, 2007

**Finding:** Due to a limited number of available employees, there is not a complete segregation of duties in all accounting, recording and custody functions.

**Recommendation:** We recommend that duties be segregated to the extent possible to prevent both intentional and unintentional errors. Segregation includes 1) separating transaction authorization from custody of related assets; 2) separating transaction recording from general ledger posting and maintenance; 3) separating operations responsibility from record-keeping. Where these segregations are not possible, we recommend close supervision and review.

**Response:** Due to limited staffing with the technical skills to perform these duties, management feels that close supervision of the personnel assigned to those tasks is the preferred solution. Administration will continue to monitor these tasks on a daily basis.

**Current Status:** This matter has not been resolved - see finding 2013-2.

**Section II. Federal Award Findings**

Not applicable

**Section III. Management Letter**

Not applicable